

Message Text

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TO SECSTATE WASHDC 2135

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INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY TEHRAN

C O N F I D E N T I A L KUWAIT 0551

E.O. 11652: GDS

TAGS: ENRG, EINV, EALR, BMEP, KU

SUBJECT: KUWAIT PETROCHEMICAL INDUSTRIALIZATION: SNAGS DEVELOPING

REF: (A) KUWAIT 5165 (B) KUWAIT 4132

SUMMARY: EMBOFF HAD OPPORTUNITY DISCUSS IN GENERAL STATUS OF VARIOUS PETROCHEMICAL PROPOSALS BEFORE GOK AND JOINT-SECTOR COMPANIES WITH MID-LEVEL GOK OFFICIALS ACTIVE IN THIS AREA. WHILE INFORMATION PROVIDED SHOULD BE REGARDED AS FAR FROM CONCLUSIVE OR AUTHORITATIVE, IT APPEARS THAT GOK GREAT DEAL MORE BEARISH ON PUSHING AHEAD WITH VARIOUS PETTROCHEMICAL SCHEMES THAN THEY WERE SOME MONTHS AGO. WITH EXCEPTION W.R. GRACE PROPOSAL FOR PLANT TO PRODUCE AROMATICS, ALL OTHER PROJECTS APPEAR FOR PRESENT IN ABEYANCE. IT LIKELY THIS RESULT OF GOK CONCERN ABOUT
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MAINTAINING SUFFICIENT GAS SUPPLY TO POWER ELECTRICAL GENERATING

PLANTS AND STATE OF FLUX CAUSED BY SLOW ORGANIZATION OF THE KUWAIT OIL, GAS AND ENERGY CO. (KOGEC) AND UNCERTAINTY OVER STATUS OF MIN FINANCE AND OIL WHICH SOME OBSERVERS BELIEVE WILL BE SPLIT IN GOK REORGANIZATION. END SUMMARY.

1. IN DISCUSSIONS WITH MID-LEVEL GOK OFFICIALS, WHO GENERALLY WELL INFORMED ABOUT INDUSTRIAL PROGRAMS IN KUWAIT, EMBOFF INFORMED THAT PLANS FOR KUWAIT TO DEVELOP INDIGENOUS PETROCHEMICAL INDUSTRIES HAVE RUN INTO SERIOUS ALTHOUGH, PERHAPS, TEMPORARY DIFFICULTIES. WHILE MANY CONTINUE BELIEVE COUNTRY CAN BEST PROTECT AND MAXIMIZE ITS RETRUN FROM ITS PETROLEUM AND GAS RESOURCES BY ESTABLISHING SEVERAL BASIC PETROCHEMICAL INDUSTRIES AND PYRAMIDING UPON THEM MORE SOPHISTICATED INDUSTRIES OVER TIME, OTHER VIEWS SEEMED TO HAVE SURFACED REGARDING THE AVAILABILITY OF SUFFICIENT ASSOCIATED GAS TO POWER KUWAIT'S GENERATING PLANTS WHILE SIMULTANEOUSLY SERVING AS A RAW MATERIAL RESOURCE FOR VARIOUS PETROCHEMICAL SCHEMES. OTHER FACTORS HAVE ALSO CAUSED UNCERTAINTY INCLUDING THE SEEMINGLY SLOW MANNER IN WHICH KOGEC HAS ORGANIZED AND ASSERTED ITSELF AS THE DETERMINING AGENCY FOR THE SUPERVISION OVER THE ESTABLISHMENT AND ALLOCATION OF GAS OR PETROLEUM BASED PROJECTS LOCALLY. MOREOVER, MANY DECISIONS ARE AWAITING THE FORMATION OF A NEW CABINET IN THE WAKE OF THE RECENT NATIONAL ASSEMBLY ELECTIONS. STORIES ALSO CONTINUE TO CIRCULATE THAT A MAJOR REORGANIZATION OF THE STRUCTURE OF THE PRESENT MINISTRIES WILL OCCUR WITH POSSIBLY A MINISTRY OF OIL AND INDUSTRY BEING ESTABLISHED IN PLACE OF THE PRESENT MINISTRIES OF FINANCE AND OIL AND COMMERCE AND INDUSTRY. UNDER THIS SCENARIO FINANCE, PERHAPS COMBINED WITH COMMERCE, WOULD BECOME A SEPARATE MINISTRY.

2. IT APPEARS THE MANAGING DIRECTOR OF PETROCHEMICAL INDUSTRIES COMPANY (PIC), ABDULBAQI NOURI, HAS MOVED INTO THIS VACUUM AND FOR THE PRESENT WIELDS CONSIDERABLE INFLUENCE OVER WHAT CAN AND CANNOT BE DONE IN THE WAY OF ESTABLISHING PETROCHEMICAL INDUSTRIES IN KUWAIT.

ACCORDING ONE SOURCE, HE WAS PRESENT AT MEETING RECENTLY IN WHICH MINISTER OF FINANCE AND OIL ATEEQI GAVE NOURI WIDE AUTHORITY TO PASS JUDGEMENT ON WHAT PROJECTS SHOULD BE ESTABLISHED HERE AND WHAT THE COMPOSITION AND CHARACTER OF THESE COMPANIES SHOULD BE (I.E. JOINT-VENTURE, SOLELY KUWAITI OWNED OR PRIVATELY OWNED AND WHETHER GOK AND KUWAITI INVESTORS SHOULD EXERCISE CLOSE SUPERVISION

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OVER MANAGEMENT OR GIVE THEM RELATIVELY FREE REIN).

3. EMBASSY HAS STRONG INDICATIONS THAT PROPOSAL W.R. GRACE HAS BEEN WORKING ON FOR WELL OVER YEAR AND A HALF TO PRODUCE BENZENE, XYLENE, AND PARAXYLENES CONTINUES TO RECEIVE SERIOUS CONSIDERATION FROM PIC. GRACE OFFICIALS CONTINUE COME TO KUWAIT ON REGULAR BASIS AND MORE SIGNIFICANTLY PIC HAS BEEN SEDNING SENIOR EMPLOYEES TO U.S. FOR DISCUSSION WITH GRACE. GRACE'S MAIN OBSTACLE WAS PERSONAL OBJECTION

OF NOURI TO THE INVOLVEMENT OF PRIVATE KUWAITIS IN PROJECT.
WOULD APPEAR THAT GOK AND GRACE HAVE EASED THESE INDIVIDUALS
OUT OF PROJECT WHICH SHOULD NOW ALLOW PROJECT TO BE JUDGED SOLELY
ON ITS MERITS.

4. OTHER PROJECTS ON WHICH WE HAVE REPORTED HAVE ALLEGEDLY RUN
INTO DIFFICULTIES. MITSUI AND ITALIAN SUBSIDIARY OF ARTHUR MCKEE
HAD TEAMED UP WITH ALL-STAR CAST OF PRIVATE KUWAITIS TO PUSH FOR
PRODUCTION OF PARAFFIN IN KUWAIT PRODUCED BASICALLY FROM REIFNERY
BY-PRODUCTS. KUWAITI PRIVATE INVESTORS ALLEGEDLY INCLUDED
HALF-BROTHER OF PRIME MINISTER, BROTHER MINISTER OF FINANCE AND OIL,
PLANNING BOARD DIRECTOR DUAJJ, AND BROTHER OF ABDULBAQI NOURI.
NEVERTHELESS, SOURCE CLAIMED PROJECT WAS RULED OUT BY ABDULBAQI
NOURI FOR REASONS WHICH ARE NOT ENTIRELY CLEAR.

5. EVEN ETHYLENE PLANT WHICH GULF OIL HAS BEEN DISCUSSING WITH
KUWAITIS AND WAS CONSIDERED A NATURAL PROJECT FOR KUWAIT ONCE LPG
FACILITY IS TENDERED AND COMPLETED IS NOW IN SOME DOUBT. SOME GOK
OFFICIALS PREFER TO BURN GAS IN GENERATING PLANTS EVEN THOUGH NEWER
PLANTS CAN RUN ON EITHER GAS OR PETROLEUM. THUS, GOK SERIOUSLY
CONSIDERING BURNING ETHANE, METHANE, AND OTHER NATURAL GASSES PRO-
DUCED AS BY-PRODUCTS OF LPG FACILITY RATHER THAN MAKEING THEM AVAILAB
LE
FOR ETHYLENE, ETHANOL, MENTHANOL AND PETROPROTEIN PLANTS.

6. COMMENT: WHILE SOURCES WERE KNOWLEDGEABLE INDIVIDUALS, THEY NOT
NECESSARILY PRIVY ON DAY TO DAY BASIS TO VIEWS OF HIGH GOK AND JOINT-
SECTOR INDUSTRY OFFICIALS. MOREOVER, ONE CAN TALK IN KUWAIT TO
THREE INDIVIDUALS THOUGHT WELL-INFORMED ON THE SAME SUBJECT AND GET
THREE SEEMINGLY CONTRADICTIONARY VIEWS. NEVERTHELESS, PESSIMISTIC VIEWS
PROVIDED US TEND TO JELL WITH KNOWN KUWAITI CONCERN OVER LOCKING
THEMSELVES INTO HIGHER RATE OF PETROLEUM PRODUCTION THAN THEY
CAN SELL BECAUSE OF NEED TO PRODUCE ASSOCIATED GAS FOR DOMESTIC
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PURPOSES. WE HAVE ALSO HEARD FROM OTHER SOURCES THAT ABDULBAQI NOURI,
AT LEAST TEMPORARILY, CRUCIAL FIGURE IN PASSING ON ALL SUCH PROJECTS.
HOWEVER, SEEMS TO US THAT SITUATION NOW TOO MUCH IN FLUX TO SAY WITH
ANY CERTAINTY WITH WHAT SPEED OR IN WHAT DIRECTIONS KUWAIT WILL MOVE
IN PERMITTING ESTABLISHMENT OF PETROCHEMICAL INDUSTRIES HERE.
MORE SHOULD BE KNOWN IN FEW MONTHS TIME AFTER NEW CABINET
INSTALLED AND STRUCTURE OF GOK REORGANIZATION, IF ANY, BECOMES
APPARENT.
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